

SLATER, WALKER OF CANADA LIMITED

1973 ANNUAL REPORT

SLATER, WALKER OF CANADA LIMITED

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ANNUAL MEETING

Library Room, Main Mezzanine
Royal York Hotel, Toronto
Tuesday, April 16, 1974
10.30 a.m.

SLATER, WALKER OF CANADA LIMITED

FINANCIAL HIGHLIGHTS

	<u>1973</u>	<u>1972</u>	<u>1971</u>
Gross revenue including equity earnings ...	\$ 4,694,000	\$ 3,442,000	\$ 197,000
Earnings before investment gains	\$ 2,845,000	\$ 1,532,000	\$ 113,000
Per Share	.76	.46	.12
Net gain on disposal of investments	\$ 988,000	\$ 3,730,000	\$ 26,000
Per Share	.26	1.12	.03
Net earnings for the year	\$ 3,833,000	\$ 5,262,000	\$ 139,000
Per Share	1.02	1.58	.15
Cash dividends paid	\$ 559,000	\$ 186,000	\$ —
Per Share	.15	.05	—
Total assets at indicated market value*	\$51,532,000	\$68,388,000	\$11,695,000
Per Share	13.82	18.34	6.91
Shareholders' equity at indicated market value*	\$38,824,000	\$57,204,000	\$ 5,665,000
Per Share	10.41	15.34	3.35
Common shares (adjusted for subdivisions and conversions):			
Weighted average	3,728,466	3,331,530	940,500
Outstanding end of year	3,728,466	3,728,466	1,692,900

*Before provision for taxes on unrealized gains.

SLATER, WALKER OF CANADA LIMITED

CORPORATE INFORMATION

HEAD OFFICE	Suite 1600, Royal Trust Tower Toronto-Dominion Centre Toronto, Ontario After May 1, 1974: Suite 2200, Commercial Union Tower Toronto-Dominion Centre Toronto, Ontario
AUDITORS	Arthur Young, Clarkson, Gordon & Co.
LEGAL COUNSEL	Tory, Tory, DesLauriers & Binnington
BANKERS	The Toronto-Dominion Bank Bank of Montreal
EXCHANGE LISTINGS	Toronto and Montreal Stock Exchanges
TRANSFER AGENT AND REGISTRAR	The Canada Trust Company, Toronto, Montreal, Winnipeg, Regina, Vancouver

SLATER, WALKER OF CANADA LIMITED

BOARD OF DIRECTORS

J. PEARCE BUNTING, President, Alfred Bunting & Co. Ltd.

ROBERT W. KORTHALS, Vice-President, Administration, The Toronto-Dominion Bank

WESTELL G. PEAKER, Vice-President and Treasurer, Slater, Walker of Canada Limited

F. R. ROLAND ROWE, Deputy Managing Director, Slater, Walker Securities Limited

JAMES D. SLATER, Chairman, Slater, Walker Securities Limited

ROBERT SMITH, President, Slater, Walker of Canada Limited

JOHN A. TORY, Senior Partner, Tory, Tory, DesLauriers & Binnington

OFFICERS

JAMES D. SLATER, Chairman

ROBERT SMITH, President

WESTELL G. PEAKER, Vice-President and Treasurer

V. EDWARD DAUGHNEY, Vice-President

K. GORDON GREEN, Vice-President

FRANK D. PICKERSGILL, Vice-President

J. GARNET PINK, Secretary

RICHARD W. BRISENDEN, Comptroller

PATRICIA F. FREEDMAN, Assistant-Secretary

SLATER, WALKER OF CANADA LIMITED

PRESIDENT'S REPORT TO THE SHAREHOLDERS

FINANCIAL RESULTS

1973 has proven to be something of a paradox. On the one hand, your Company and virtually all of its operating associates performed above expectations while, on the other hand, the stock markets declined resulting in a marked reduction in the quoted values of your Company's listed investments. The following statistics illustrate these developments:

	<u>1973</u>	<u>1972</u>	<u>Change</u>
Gross revenue including equity earnings ..	\$ 4,694,000	\$ 3,442,000	+36%
Earnings before investment gains	2,845,000	1,532,000	+86%
Per share	.76	.46	+65%
Shareholders' equity:			
At book value	30,152,000	25,566,000	+18%
At indicated market value	38,824,000	57,204,000	-32%

Indicated market value is the total of the market value of listed securities and the book value of other investments and assets. Your management has reviewed the unlisted investments held by the Company and is of the opinion that in the aggregate they are conservatively worth at least \$9 million (\$2.41 per share) in excess of their book value.

We are very pleased with the earnings results which in part reflect the fine performance of our investment associates. However, as one of the prime objectives of your management is the development of asset values, we hope that the expected continuation of good operating results will lead to a fuller recognition by the stock markets of the value of the shares of the associates which underlie your Company's equity. More information on our associates will be found in the Review of Major Investments section of this report.

Net gain on disposal of investments was just under \$1 million for the current year compared to \$3.7 million in 1972. Such gains, because of their nature, occur irregularly and are therefore shown separately in the earnings statement.

NATURE OF THE BUSINESS

We continue to have many enquiries as to just what your Company does and how its activities will be affected by governmental control over foreign investment. Perhaps, therefore, a few words in this area would be in order and would help clarify our position.

Slater, Walker of Canada is an investment, management and holding company. We also provide an extensive range of financial services to individuals and corporations throughout the financial and business communities in Canada. In addition, we use a relatively small portion of our resources to invest in trading transactions in the stock markets but usually only in companies which have the potential of becoming associates, that is, where we hold at least 20% equity interests and are in a position to assist their managements in the development, expansion and financing of their operations. We generally hold minority positions in our associates and although we always have one or more directors on their boards and play a significant part in their development and expansion we do not exercise control over policy and day-to-day business decisions of such companies.

Your management has taken a positive approach to The Foreign Investment Review Act and the effect it may have on the Company's operations. We presented a brief describing our activities to the House of Commons Standing Committee on Finance, Trade and Economic Affairs in June of 1973 when the Committee was studying the proposed Foreign Investment Review Act and we have on several occasions had discussions and meetings with officials of the Department of Industry, Trade and Commerce. These discussions were designed initially to provide information to the legislative committee developing the legislation and, more recently, to inform ourselves as to administrative practices in this important area of legislation. We believe that your Company provides important benefits and useful services to Canada and to the Canadian business and financial communities and we do not expect that this legislation will adversely affect the continued growth of your Company.

Our management is Canadian and a majority of our Directors is Canadian. Slater, Walker Securities Limited of the United Kingdom (which holds 39% of the Company's shares) has not and does not attempt to exercise policy or management control over your Company. However, speaking for the management I would like to say that we value our association with our largest shareholder and the advice and counsel available from its executives.

SHAREHOLDERS

In November 1973 a company owned by the Canadian resident family of Lord Thomson of Fleet acquired from Slater, Walker Securities Limited approximately 10% of your Company's shares. We see this as a significant step towards adding to a substantial and influential group of Canadian investors in the Company and in this connection you may be interested to know that The Toronto-Dominion Bank continues to hold 7% of your Company's shares.

DIVIDENDS

In September 1972 a new policy of paying half-yearly dividends was established. The initial half-yearly rate of 5¢ per share was doubled to 10¢ per share with the dividend paid on September 28, 1973.

EXPANDED OPERATIONS

In October 1973 we established an operating division in New York City to extend our scope of activities into the United States. This division is under the direction of Mr. C. Warren Goelz a lawyer and formerly a partner in one of the largest New York investment banking firms. Our intention is to establish in the United States a similar business to that carried on by your Company in Canada and our investment will be through a majority holding in a listed company of which Mr. Goelz will be appointed President. In this regard we recently announced a proposal to acquire a controlling interest in The Nestle-LeMur Company which is engaged in the manufacture and distribution of various lines of men's and women's cosmetics. Nestle-LeMur has plants and offices in both New York City and Toronto and its shares are listed on the American and Mid-West Stock Exchanges. Completion of this transaction is subject to various conditions but if completed Nestle-LeMur will be our investment vehicle in the United States.

Also in October we opened an office in Vancouver, B.C. under the direction of Mr. Anthony P. Lloyd, formerly of our Toronto office, to establish closer contact with the rapidly expanding investment and business communities in Western Canada.

CHANGES IN INVESTMENTS

In January 1973 we made a small equity investment of \$400,000 in Stuart House International Limited and at the same time we purchased for \$475,000 a \$500,000 secured convertible debenture. This investment was a mistake and we have made substantial provision for a loss on the equity portion.

In April 1973 we purchased a substantial minority interest in The Glengair Group Limited which subsequently amalgamated with its subsidiary, Atlantic Sugar Refineries Co. Limited, and is now known as Jannock Corporation Limited. We have since added to this investment, bringing our total holding to approximately 10% of the equity shares. In November 1973 Mr. Graeme G. Kirkland, Senior Vice-President, left your Company to become the President and Chief Executive Officer of Jannock. We wish Mr. Kirkland every success in his new position.

Early in 1973 we sold our 29% holding in Inter-City Gas Limited for \$4.8 million and this transaction accounts for most of the net gain on disposal of investments shown in the earnings statement. This sale virtually completes the programme of disposal of the former UNAS portfolio undertaken in 1972.

Effective March 7, 1973 our former subsidiary Stanley Brock Canada Limited was sold for a price equal to the book value of its assets. The properties occupied by Stanley Brock were not included in the transaction and all but one of these have now been sold at prices substantially in excess of their book values.

Your Company's subsidiary, Slater, Walker Properties Limited (formerly R. C. Baxter Properties Ltd.), arranged during 1973 to sell the Martello Towers Apartment building in Vancouver, B.C., for \$4.1 million. However, this transaction did not close until January 1974.

TRADING ACTIVITIES

Our trading subsidiaries had marked success in the stock markets during 1973, the most significant transaction being the sale of a large holding in Markborough Properties Limited which although arranged during 1973 did not close until February 1974. The profit before taxes on the sale, which is in excess of \$3 million, does not appear in the 1973 results.

MANAGEMENT

During 1973 your Company continued to strengthen its management team when Messrs. V. E. Daughney, R. J. Graham, K. G. Green and F. D. Pickersgill, all with extensive and successful business experience, joined the Company as Vice-Presidents. Mr. Graham subsequently assumed the Presidency of Slater, Walker Properties Limited which is referred to elsewhere in this report.

Mr. W. G. Peaker, Vice-President and Treasurer, was appointed a Director of the Company to fill the vacancy on the Board of Directors created when Mr. Kirkland joined Jannock Corporation.

FUTURE PROSPECTS

We are confidently looking forward to another profitable year in 1974 for your Company and its associates, although not without concern for the adverse effect that rising costs and shortages of raw materials could have on some of their operations. We will continue to look for investments in Canada and the United States and for the opportunity to expand our financial services operations.

Today your Company has a sound Balance Sheet and is in a strong cash position. Both are much improved from the December 31, 1973 position by the receipt of approximately \$6 million from the sale of our Markborough Properties shares. We have an extremely capable team of executives and we are aggressively seeking new businesses and attractive new investments. No doubt 1974 will present new challenges but I am confident we have the resources to meet these challenges.

Once again we have produced excellent results which have been achieved by the loyalty, energy and hard work of the management and staff of your Company and of its associates. On your behalf and for your directors may I express appreciation for their considerable efforts.

A handwritten signature in black ink, appearing to read "Robert Smith", with a stylized flourish at the end.

ROBERT SMITH,
President

SLATER, WALKER OF CANADA LIMITED

SUMMARY OF MAJOR INVESTMENTS

LISTED COMPANIES	BUSINESS	APPROXIMATE EQUITY INTEREST
Peoples Department Stores Group Peoples Stores Walker Stores & Smith's of Windsor Marks & Spencer } 50% owned by Peoples D'Allairs } Department Stores Ltd.	Retailing	30%
Alliance Building Corporation Limited	Real estate investment and development	44%
Alpa Industries Limited	Manufacture and distribution of lumber products	21%
UNLISTED COMPANIES		
Real Estate Group Slater, Walker Properties Limited	Real estate services, development and investment and mortgage loans	100%
Immobilia Inc.	Real estate development	76%
The Haughton Group C.F. Haughton Limited ABF Automated Business Forms	Printing Manufacture of business forms	39%
Venus Esterbrook Canada Limited	Manufacture and distribution of writing and marking instruments and of advertising specialty products and custom vinyl products	75%

SLATER, WALKER OF CANADA LIMITED

REVIEW OF MAJOR INVESTMENTS LISTED COMPANIES

PEOPLES DEPARTMENT STORES GROUP

The Peoples Group is a fast expanding and successful merchandising chain which has shown outstanding growth over the past five years. It now operates 48 "Peoples" variety stores in eastern Canada, 45 "Walkers" stores merchandising a medium priced range of apparel goods in Ontario, and "Smith's of Windsor" a large department store in Windsor, Ontario. Also through a company jointly owned with Marks and Spencer Limited of the United Kingdom (one of the world's largest and most successful retailers) Peoples operates 11 "Marks & Spencer" stores in Ontario which sell the well known high quality at medium price, "St. Michael" brand of clothing and 32 "D'Allairs" ladies fashion stores across Canada. All operations are expanding rapidly with "Marks & Spencer" being the fastest growing division. By the end of 1975 there should be "Marks & Spencer" stores operating right across Canada.

The earnings of the Peoples Group for its fiscal year ended July 31, 1973 were more than double the earnings of the previous year. Earnings in 1973 were \$3,086,000 (67¢ per share) compared with \$1,291,000 (33¢ per share) in 1972.

Performance in the current fiscal year is continuing at a satisfactory level and unaudited results for the six months ended January 31, 1974 show earnings of \$1,962,000 (41¢ per share) as against \$1,671,000 (38¢ per share) for the same period in the previous year. Due to the substantial build-up of the "Marks & Spencer" stores, this division will show little or no earnings in the current fiscal year. Management is confident, however, that this division will be a major contributor to the earnings of the group in future years.

ALLIANCE BUILDING CORPORATION LIMITED

Alliance is engaged directly and indirectly, through subsidiaries and joint ventures and partnerships with others, in the development, ownership and management of revenue producing properties, construction and sale of residential, industrial and commercial properties and land banking operations. Initially and still primarily based in the Toronto area, Alliance has extended its scope to include locations in other Ontario centres and Quebec.

Alliance has recently announced its financial results for the year ended December 31, 1973 which show that its net earnings increased from \$464,000 (\$.40 per share) in 1972 to \$1,341,000 (\$1.04 per share in 1973). Cash flow, perhaps a more significant factor, increased to \$3,473,000 (\$2.70 per share) in 1973 up from \$1,222,000 (\$1.12 per share) in 1972.

ALPA INDUSTRIES LIMITED

Alpa is engaged in the manufacture, processing and distribution of lumber products to general contractors and builders in the home, apartment, commercial, industrial and agricultural construction fields. While mainly concentrated in Ontario, Alpa has recently acquired profitable operations in Vancouver and Edmonton. Alpa intends to aggressively continue its excellent growth by expanding sales from present operations as well as by further acquisitions in related fields.

Alpa's audited financial statements for the year ended June 30, 1973 show sales up from \$20 million in 1972 to \$34 million in 1973 and earnings up from \$735,000 (\$.94 per share) in 1972 to \$1,233,000 (\$1.19 per share) in 1973. Unaudited results show that sales and earnings have increased substantially for the first six months of fiscal 1974 with sales at \$36,379,000 up from \$13,814,000 for the same period of the previous year and earnings of \$1,189,000 (\$1.02 per share) as compared with \$676,000 (\$.70 per share) in the previous year.

UNLISTED COMPANIES

REAL ESTATE GROUP

Slater, Walker Properties Limited

This company has its own management team and in future will co-ordinate and manage all direct real estate investment activities for Slater, Walker of Canada.

Directly or through subsidiaries the company now holds a number of high quality revenue producing properties including the prestigious Board of Trade and Baxter office buildings in Vancouver (British Columbia) and several shopping centres in Saskatoon (Saskatchewan), Winnipeg (Manitoba), and Brantford, Chatham and Sault Ste. Marie (Ontario). It also arranges and makes mortgage loans on the security of real property.

Late in 1973, the company arranged for the sale for \$4.1 million of its Martello Tower Apartment building in Vancouver but this transaction did not close until January 1974. The net proceeds of \$1.4 million from this sale (after allowing for the mortgage on the property) will be used for other real estate investments including the making of mortgage loans.

Immobilia Inc.

Immobilia is a Montreal based real estate investment and development company and its holdings include the Avis Building, an office property in the Montreal suburb of St. Laurent, Quebec, and a mixed residential and commercial development in the suburb of Pointe Claire, Quebec. The latter development called Southwest One was planned under the total living concept providing facilities for accommodation, recreation, shopping and working. All elements of the development are joined by underground car parks and the residents will enjoy tennis courts, two swimming pools and a health club including several squash courts. A 50% interest in the complex has recently been sold for \$3 million cash on a co-tenancy basis to outside interests and the proceeds are to be employed in the financing of new developments and other real estate investments. This sale establishes a value on our holdings in Immobilia of more than double our purchase price in December 1972.

Immobilia has its own management team under Mr. Morris Shohet which is actively seeking ways of profitable expansion.

THE HAUGHTON GROUP

C. F. Haughton Limited and its wholly owned subsidiary ABF Automated Business Forms Limited is one of the larger printing and paper converters in Canada. Its main activities are in the production of business forms, marketed under the ABF name, and colour lithography, marketed under the Haughton name. It may interest shareholders to know that this Annual Report was designed and printed by the Haughton company.

The net earnings of The Haughton Group for its fiscal year ended August 31, 1973 were \$575,000 an increase of 200% over its earnings for the previous year. The current fiscal year has started extremely well and earnings for the first quarter were \$293,000 compared with \$106,000 in the first quarter of the previous year.

VENUS ESTERBROOK CANADA LIMITED

Venus is primarily in the writing instrument and office products business. Since being acquired by your Company and Mr. A. V. Steele from its U.S. parent, Venus has expanded its sales and market penetration and in 1973 acquired two additional related businesses. The first (now called Venus Truform Limited) manufactures and distributes a broad range of writing instrument products in the advertising specialty field and the second (now named Venus Custom Products Limited) manufactures a range of custom vinyl products such as briefcases, ring binders, and clipboards.

Under the direction of Mr. Steele, Venus has improved operating results markedly; 1973 sales increased by over 22% while net earnings have increased by nearly 33%. Prospects for 1974 are for further increase in sales and earnings, some of which will come from the contributions that will be made by the Truform and Custom Products divisions. In a negative vein, rising prices and shortages of raw materials will severely tax the skills of the management team.

SLATER, WALKER OF CANADA LIMITED

AUDITORS' REPORT

To the Shareholders of
Slater, Walker of Canada Limited:

We have examined the consolidated balance sheet of Slater, Walker of Canada Limited and its consolidated subsidiaries as at December 31, 1973, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. For Slater, Walker of Canada Limited and its consolidated subsidiaries, our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. For the companies accounted for by the equity method in these financial statements we have relied on the reports of the auditors who have examined their financial statements.

In our opinion these consolidated financial statements present fairly the financial position of Slater, Walker of Canada Limited and its consolidated subsidiaries as at December 31, 1973 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 22, 1974

ARTHUR YOUNG, CLARKSON, GORDON & CO.
Chartered Accountants

SLATER, WALKER OF CANADA LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 1973

(with comparative figures for 1972)

	<u>1973</u>	<u>1972</u>
Financial income including interest, fees, trading gains and dividends	\$2,087,140	\$1,929,778
Equity in net earnings of associated and unconsolidated subsidiary companies involved in:		
Real estate activities	893,399	440,424
Commercial activities	865,820	454,318
Industrial activities	847,341	617,664
	<u>4,693,700</u>	<u>3,442,184</u>
Expenses (note 6)	1,848,539	1,909,726
Earnings before net gain on disposal of investments	2,845,161	1,532,458
Net gain on disposal of investments (net of \$434,000 income taxes; 1972 — \$1,080,000 income taxes and \$620,000 minority interest)	987,957	3,730,069
Net earnings for the year	<u>\$3,833,118</u>	<u>\$5,262,527</u>
Earnings per share		
Earnings before net gain on disposal of investments	\$.76	\$.46
Net gain on disposal of investments	.26	1.12
For the year	<u>\$1.02</u>	<u>\$1.58</u>

(See accompanying notes to consolidated financial statements)

SLATER, WALKER OF CANADA LIMITED

CONSOLIDATED BALANCE SHEET

December 31, 1973

(with comparative figures at December 31, 1972)

ASSETS

Investments (note 2)

Associated companies:

Quoted shares, at equity (market — \$20,582,000; 1972 — \$39,953,000)	\$14,755,594	\$12,165,158
Debentures and warrants, at cost (market — \$1,967,000; 1972 — \$1,351,000)	1,706,180	548,335
Unquoted shares, at equity	581,168	356,727
	<u>17,042,942</u>	<u>13,070,220</u>

Unconsolidated subsidiary companies:

Unquoted shares, at equity	8,349,546	7,875,433
Debentures, at cost	2,000,000	2,000,000
	<u>10,349,546</u>	<u>9,875,433</u>

Portfolio:

Quoted securities, at cost (market — \$4,496,000; 1972 — \$1,626,000)	4,449,815	1,162,881
Unquoted securities, at the lower of cost and estimated realizable value	1,476,535	3,731,499
	<u>5,926,350</u>	<u>4,894,380</u>

Total investments	33,318,838	27,840,033
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Trading securities, at cost (market — \$9,117,000; 1972 — \$8,415,000) (note 9(b))	6,578,494	5,831,075
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Short-term advances to related companies	2,326,726	1,903,772
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Notes and accounts receivable	495,715	927,089
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Other	140,473	248,942
	<u>\$42,860,246</u>	<u>\$36,750,911</u>

(See accompanying notes to consolidated financial statements)

LIABILITIES

	<u>1973</u>	<u>1972</u>
Bank indebtedness	\$ 3,404,581	\$ 1,370,301
Accounts payable and accrued charges	2,273,448	1,634,593
Income taxes payable	<u>454,754</u>	<u>1,604,673</u>
	<u>6,132,783</u>	<u>4,609,567</u>
Term loan from bank (note 3)	<u>6,575,000</u>	<u>6,575,000</u>
Total liabilities	<u>12,707,783</u>	<u>11,184,567</u>

SHAREHOLDERS' EQUITY

Share capital (note 4)

Authorized:

7,500,000 common shares

Issued:

3,728,466 common shares

14,195,734 14,195,734

Contributed surplus

4,016,267 4,016,267

Retained earnings (note 5)

11,940,462 7,354,343

Total Shareholders' equity

30,152,463 25,566,344

\$42,860,246

\$36,750,911

On behalf of the Board:

ROBERT SMITH, Director

WESTELL G. PEAKER, Director

SLATER, WALKER OF CANADA LIMITED

**CONSOLIDATED STATEMENT
OF RETAINED EARNINGS**

Year ended December 31, 1973

(with comparative figures for 1972)

	<u>1973</u>	<u>1972</u>
Balance at beginning of year	\$ 7,354,343	\$ 1,587,806
Add:		
Net earnings for the year	3,833,118	5,262,527
Equity in capital transactions of associated companies (resulting mainly from their issue of share capital for amounts in excess of book value)	1,312,267	1,132,753
	<u>12,499,728</u>	<u>7,983,086</u>
Deduct:		
Dividends on common shares	559,266	186,422
Expenses of shares issued (net of \$38,000 income taxes)	—	355,103
Amalgamation expenses (net of \$21,000 income taxes)	—	87,218
	<u>559,266</u>	<u>628,743</u>
Balance at end of year	<u>\$11,940,462</u>	<u>\$ 7,354,343</u>

(See accompanying notes to consolidated financial statements)

SLATER, WALKER OF CANADA LIMITED

**CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION**

Year ended December 31, 1973

(with comparative figures for 1972)

	<u>1973</u>	<u>1972</u>
Investments at beginning of year	<u>\$27,840,033</u>	<u>\$ 8,505,070</u>
Source of investment funds		
Net earnings for the year	3,833,118	5,262,527
Bank indebtedness	2,034,280	—
Equity in capital transactions of associated companies	1,312,267	1,132,753
Notes receivable	524,605	—
Miscellaneous (net)	15,238	—
Share capital, less net share issue expenses	—	10,810,131
Term loan from bank	—	6,575,000
Contributed surplus	—	4,016,267
Other liabilities	—	3,096,108
	<u>7,719,508</u>	<u>30,892,786</u>
Deduct:		
Trading securities	747,419	5,210,504
Dividends	559,266	186,422
Other liabilities	511,064	—
Short-term advances to related companies	422,954	826,025
Bank indebtedness	—	3,654,699
Demand loan from related company	—	862,245
Notes receivable	—	776,727
Miscellaneous (net)	—	41,201
	<u>2,240,703</u>	<u>11,557,823</u>
Funds used for investments	<u>5,478,805</u>	<u>19,334,963</u>
Investments at end of year	<u><u>\$33,318,838</u></u>	<u><u>\$27,840,033</u></u>

(See accompanying notes to consolidated financial statements)

SLATER, WALKER OF CANADA LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1973

1. BUSINESS OF THE COMPANY AND ACCOUNTING POLICIES

Slater, Walker of Canada Limited is an investment and holding company and its wholly-owned financial subsidiaries conduct a financial and management services business and a securities trading operation. For financial statement purposes, this group of companies is herein called the "Company". The Company holds interests in a number of long-term investments and trading securities which can be described as follows:

Associated companies — companies less than 50% owned which are operated autonomously and in which the Company has significant influence.

Unconsolidated subsidiaries — companies more than 50% owned but which are operated autonomously and whose business operations are not primarily of a financial nature.

Portfolio investments — investments in quoted and unquoted equity and debt securities of companies less than 50% owned in which the Company exerts no significant influence.

Trading securities — quoted and unquoted securities purchased with the intention of holding them for the short-term.

Basis of presentation of the financial statements of the Company and the above investments may be summarized as follows. The accounts of Slater, Walker of Canada Limited are consolidated with its financial subsidiaries only. Investments in associated companies and unconsolidated subsidiaries are accounted for by the equity method whereby the investments are initially recorded at cost and carrying amounts are adjusted to recognize the Company's share of earnings or losses and of capital transactions since acquisition and reduced by dividends received. Additional financial information with respect to these investments is provided in the notes to the financial statements. All significant inter-company transactions are eliminated. Since the Company's business is primarily investment holding and accordingly financial in nature, the basis of presentation outlined above is considered to be more informative than a full consolidation incorporating the non-financial subsidiaries which are operated autonomously.

Quoted portfolio investments and trading securities are carried at the lower of average cost and market as determined by comparing the aggregate cost of each category with its respective aggregate market value. Market values are based on the last reported sale or closing bid price on security exchanges or over-the-counter markets. Parenthetical disclosure is made of the aggregate market value of quoted investments by category. Unquoted portfolio investments are carried at the lower of cost and estimated realizable value.

Acquisitions of investments have been recorded on the purchase basis of accounting. Any difference between the purchase price of the investment and the acquired interest in net tangible assets at estimated fair value is not amortized unless the value of the related investment is impaired.

Earnings per share are computed on the basis of the weighted average number of shares outstanding in each year after giving retroactive effect to any subdivisions or conversions.

2. INVESTMENTS

(a) Analysis of investment in shares of associated and unconsolidated subsidiary companies:

	Approximate Equity Interest %	Carrying Value at Equity (1)	Market Value (2)
Associated companies —			
Quoted shares:			
Peoples Department Stores Ltd. (3)	30	\$ 7,895,722	\$13,097,000
Alliance Building Corporation Limited	44	4,393,171	5,326,000
Alpa Industries Limited	21	2,466,701	2,159,000
		<u>\$14,755,594</u>	<u>\$20,582,000</u>
Unquoted shares:			
C. F. Haughton Limited (3)	39	\$ 581,168	
Unconsolidated subsidiary companies —			
Unquoted shares:			
Slater, Walker Properties Limited (formerly			
R. C. Baxter Properties Limited)	100	\$ 6,109,260	
Immobilia Inc.	76	1,565,515	
Venus Esterbrook Canada Limited	75	674,771	
		<u>\$ 8,349,546</u>	

- (1) The excess of the total purchase price of these investments over the acquired interests in net tangible assets at estimated fair value is in the aggregate \$3,291,241.
 - (2) The market values of the Company's investments do not necessarily represent the value of entire blocks of investment holdings which may be more or less than the value indicated by market quotations.
 - (3) The accompanying consolidated financial statements include the Company's share in the results of Peoples Department Stores Ltd. and C. F. Haughton Limited for their fiscal years ended July 31 and August 31, 1973 respectively.
- (b) The following is a summary of financial data for unconsolidated subsidiary companies held at December 31, 1973 extracted from audited financial statements for the year then ended with audited comparative balance sheet data at December 31, 1972. With respect to the comparative results of operations, unaudited pro-forma figures have been shown for 1972 since in each case, the previous fiscal period of the subsidiaries was less than a full year.

Summarized balance sheet

	1973	1972
Current assets	\$ 2,363,000	\$ 2,074,000
Investment in real estate	38,645,000	36,028,000
Other assets	1,082,000	927,000
	<u>42,090,000</u>	<u>39,029,000</u>
Current liabilities	4,326,000	2,311,000
Long-term debt	29,134,000	28,905,000
Deferred income taxes	1,424,000	1,102,000
	<u>34,884,000</u>	<u>32,318,000</u>
Shareholders' equity	<u>\$ 7,206,000</u>	<u>\$ 6,711,000</u>

Summarized income statement

Gross revenue	\$ 9,541,000	\$ 7,034,000
Earnings before the following	<u>\$ 3,387,000</u>	<u>\$ 2,444,000</u>
Deduct:		
Interest on long-term debt	2,026,000	1,308,000
Depreciation and amortization	344,000	224,000
Income taxes	522,000	434,000
	<u>2,892,000</u>	<u>1,966,000</u>
Net earnings for the year	<u>\$ 495,000</u>	<u>\$ 478,000</u>

(c) Analysis of earnings from investments:

	Financial income	Equity earnings	Total of financial income and equity earnings	Disposal of investments
Associated companies	\$ 240,901	\$2,123,341	\$2,364,242	\$812,485
Unconsolidated subsidiaries	325,096	483,219	808,315	120,351
Portfolio investments	223,990	—	223,990	55,121
Other sources	1,297,153	—	1,297,153	—
Total	<u>\$2,087,140</u>	<u>\$2,606,560</u>	<u>\$4,693,700</u>	<u>\$987,957</u>

3. TERM LOAN

The term loan, bearing interest at 1% above the prime bank rate and maturing July 31, 1975, is secured by a pledge of the shares and debentures of Slater, Walker Properties Limited (formerly R. C. Baxter Properties Limited), and other securities with a quoted value at December 31, 1973 of approximately \$4,000,000, the amount required under the terms of the loan agreement with the bank.

4. SHARE CAPITAL

The Company has reserved 100,000 common shares for its Key Employee Stock Option Plan. Options granted under the Plan may be exercised on a cumulative basis at 20% per annum commencing one year subsequent to the date of grant and expire six years subsequent to such date.

Options outstanding at December 31, 1973 are as follows:

<u>Year Granted</u>	<u>Option Price</u>	<u>Outstanding December 31, 1973</u>
1972	\$ 9.00	15,500
1972	15.30	2,200
1973	9.00	35,000
1973	13.50	3,750
1973	14.75	2,200
		<u>58,650</u>

Of the outstanding options, 43,000 are for directors and officers.

5. RETAINED EARNINGS

In compliance with Section 62 of the Canada Corporations Act, retained earnings of \$728,888 are designated as capital surplus arising on the redemption of preferred shares.

6. DEPRECIATION, INTEREST AND INCOME TAXES

Expenses include the following:

	<u>1973</u>	<u>1972</u>
Interest:		
Term loan	\$561,000	\$264,000
Other	256,000	340,000
Income Taxes	145,000	470,000
Depreciation	27,000	24,000

7. REMUNERATION OF DIRECTORS AND OFFICERS

Aggregate remuneration paid to directors and officers of the Company was as follows:

	<u>1973</u>	<u>1972</u>
Number of directors	7	7
Remuneration as directors	\$ 3,000	\$ 2,000
Number of officers	8	6
Remuneration as officers	\$304,716	\$121,585
Officers who are also directors	3	3

8. GUARANTEES

At December 31, 1973 the Company was contingently liable for guarantees of bank indebtedness of an unconsolidated subsidiary for \$300,000 and an unrelated company for \$4,800,000. The latter amount is secured by a pledge of marketable securities owned by that company which have a quoted value at December 31, 1973 of approximately \$7,330,000.

9. TRANSACTIONS CLOSING SUBSEQUENT TO YEAR END

- An unconsolidated subsidiary has agreed to sell effective January 4, 1974 an investment property held at December 31, 1973 for cash proceeds of \$4,100,000, which amount is substantially in excess of net book value.
- The Company has agreed to sell effective February 4, 1974 trading securities held at December 31, 1973 for cash proceeds of \$5,900,000, which amount is substantially in excess of cost.

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**SLATER, WALKER
OF CANADA LIMITED**

INTERIM REPORT

SIX MONTHS ENDED JUNE 30, 1973

SLATER, WALKER OF CA
INTERIM REPORT FOR THE SIX MO

**CONSOLIDATED
STATEMENTS
OF
EARNINGS
AND
RETAINED
EARNINGS**

**CONSOLIDATED
STATEMENT
OF
CHANGES
IN
FINANCIAL
POSITION**

ADA LIMITED

ENDED JUNE 30, 1973 (UNAUDITED)

	1973	1972
FINANCIAL INCOME including interest, fees, trading gains and dividends	\$ 854,300	\$ 1,086,837
EQUITY in net earnings of unconsolidated subsidiary and associated companies involved in:		
Commercial activities	487,000	130,629
Industrial activities	475,000	201,985
Real estate activities	244,000	121,922
	2,060,300	1,541,373
EXPENSES (including \$41,000 income taxes; 1972 - \$254,000)	735,342	1,021,705
EARNINGS BEFORE NET GAIN ON DISPOSAL OF INVESTMENTS	1,324,958	519,668
NET GAIN ON DISPOSAL OF INVESTMENTS (net of \$531,000 income taxes; 1972 - \$105,000)	884,045	1,216,505
EARNINGS FOR THE PERIOD	2,209,003	1,736,173
RETAINED EARNINGS AT BEGINNING OF PERIOD	7,354,343	1,587,806
ADD equity in capital transactions of associated companies	1,338,293	(10,119)
	10,901,639	3,313,860
DEDUCT:		
Dividends	186,422	—
Expenses of shares issued (net of \$38,000 income taxes)	—	355,103
Amalgamation expenses (net of \$21,000 income taxes)	—	87,218
	186,422	442,321
RETAINED EARNINGS AT END OF PERIOD	\$10,715,217	\$ 2,871,539
EARNINGS PER SHARE:		
Before net gain on disposal of investments	35¢	18¢
Net gain on disposal of investments	24	41
For the period	59¢	59¢

INVESTMENTS AT BEGINNING OF PERIOD	\$29,743,805	\$ 9,582,817
SOURCE OF INVESTMENT FUNDS		
Bank indebtedness	6,512,761	—
Earnings for the period	2,209,003	1,736,173
Equity in capital transactions of associated companies	1,338,293	(10,119)
Miscellaneous (net)	110,818	(433,945)
Share capital, less net share issue expenses	—	11,165,234
Contributed surplus	—	4,016,267
Term loan from bank	—	4,575,000
Promissory notes	—	2,006,986
Other liabilities	—	1,447,304
	10,170,875	24,502,900
DEDUCT:		
Notes receivable	7,222,346	3,520,005
Trading securities	4,743,853	1,197,386
Other liabilities	832,597	—
Dividends	186,422	—
Accounts receivable	102,042	191,378
Bank indebtedness	—	3,961,572
	13,087,260	8,870,341
(DECREASE) INCREASE IN INVESTMENTS	(2,916,385)	15,632,559
INVESTMENTS AT END OF PERIOD	\$26,827,420	\$25,215,376

PRESIDENT'S REPORT

TO THE SHAREHOLDERS

I am pleased to report on the unaudited results of your company for the first six months of the current fiscal year.

1. Interim Results

Consolidated earnings before net gain on disposal of investments for the six months ended June 30, 1973, were \$1,324,958 (35c per share) as compared with \$519,668 (18c per share) for the same period of 1972.

In addition, net gain on disposal of investments amounted to \$884,045 (24c per share) compared with \$1,216,505 (41c per share) in 1972. As in the past, we show net gains on disposal of investments separately because such gains by their nature will fluctuate considerably from year to year.

2. Asset Value

Based on the market value of listed investments and the book value of other investments, total assets and net assets of the company were approximately \$63 million and \$46 million at June 30, 1973. Net asset value per share at June 30, 1973, was \$12.32 compared with \$8.45 at June 30, 1972, and \$15.34 at December 31, 1972. The reduction from the December figure has resulted from the general decline in the stock market. You will be pleased to know that in the opinion of your management, the true value of the unlisted investments is considerably in excess of their book value figures.

3. Dividend

A half yearly dividend of 5c per share was paid on March 29, 1973. The half yearly dividend will be increased to 10c per share commencing with the next payment which will come due in September 1973.

4. Major Investments

The companies in which we have a significant holding are all showing substantial improvements in earnings in their current fiscal periods with the exception of Stuart House International Limited.

Peoples Department Stores Ltd.'s earnings for the nine months to April 30, 1973, were 43c per share compared with 15c per share in the same period of the previous year. Peoples Stores fiscal year ended on July 31, 1973, and we are confident that its results for the year are up to our best expectations.

Alliance Building Corporation Limited is having an excellent year – both its earnings and, more important, its underlying asset value have increased markedly.

Alpa Industries Limited has just announced the results for its fiscal year ended June 30, 1973, in which it showed earnings of \$1.17, an improvement of 30% over its earnings per share for the previous financial year.

Interim results from C. F. Haughton Limited and Venus Esterbrook Canada Limited are also excellent.

In January 1973 your company made a \$400,000 equity investment in Stuart House International Limited and at the same time purchased for \$475,000 a \$500,000 9% convertible debenture. Unfortunately, Stuart House has not achieved the results expected and indeed has suffered losses. Accordingly, we have made a substantial provision for the possible loss from this investment.

In April 1973 your company purchased a substantial minority interest in The Glengair Group Limited which subsequently amalgamated with Atlantic Sugar Refineries Co. Limited and is now known as Jannock Corporation Limited. We consider that our purchase was made on very favourable terms and expect to show an excellent return from this investment.

5. Sales of Investments

In April 1973 your company's investment in Inter-City Gas Limited was sold for \$4,800,000. The proceeds of sale are available for new investments as and when suitable opportunities occur. Also in the period under review we sold our 100% subsidiary Stanley Brock Canada Limited for an amount equal to the net assets of that company. The properties occupied by Stanley Brock were not included in the transaction and most have since been sold at prices substantially in excess of their book value.

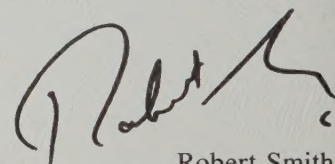
6. Personnel

The company has continued to strengthen its management group and has recently announced the appointments of G. G. Kirkland as Senior Vice President and V. E. Daughney and R. J. Graham as Vice Presidents.

7. Outlook

You will be pleased to hear that management expects, subject to unforeseen circumstances, that the level of earnings achieved in the first half of the year will be improved upon in the balance of the year.

On Behalf of the Board of Directors



Robert Smith
President

August 29, 1973